COOPERATIVES IN AGRIBUSINESS

FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE
FCS EDUCATIONAL CIRCULAR 33

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COOPERATIVES IN AGRIBUSINESS[1]

The life of every American is touched at some time or other by cooperative enterprise. Latest figures published by Farmer Cooperative Service show that some 7,645 farmer cooperatives providing marketing, purchasing, and related services did a net business of $42.3 billion in the fiscal year 1974-75. Cooperatives marketed about 30 percent of all agricultural products, and provided about 20 percent of all farm production supplies used on farms in that year.

But these figures don't begin to tell the story of the contribution of cooperative action to rural America. Some 30 percent of all irrigated farmland is supplied water by 6,800 incorporated and unincorporated mutual irrigation associations. About 40 percent of all the fire insurance coverage on farm buildings in the United States is carried by some 1,000 farmers' mutual fire insurance companies.

Sheep and cattle producers, working through about 1,200 grazing associations, use certain public lands for grazing livestock.

Dairy farmers have organized about 1,100 dairy herd improvement associations. Eight million rural homes get electric power from 983 electric cooperatives. More than 900,000 telephone subscribers receive service from about 247 cooperatives.

Specialized farm credit tailored to rural needs and abilities is provided through more than 1,000 credit cooperatives comprising the Farm Credit System. And more than 600 rural credit unions chartered under Federal and State statutes provide savings and loan services to many thousands of members.

In sum, about 23,000 separate cooperative organizations, including categories not mentioned here, serve the needs of rural America and at least indirectly serve all America.

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[1]This publication was orginally coordinated by Irwin W. Rust, now deceased, who at the time was director of the training division in Farmer Cooperative Service. It has been reviewed and revised by C. H. Kirkman, Jr., Cooperative Education Specialist, Farmer Cooperative Service. It was written for secondary and postsecondary educational levels. Others interested in farmer cooperatives also may find it of interest.

HOW AGRIBUSINESS COOPERATIVES AFFECT YOU

Have you ever counted the services and products you receive from cooperatives?

Did you eat a Sunkist orange for breakfast, or did you start your day with a glass of Welch's grape juice? You may have spread your toast with Land O'Lakes butter. Did you know that all of these brands of such widely different foods have one thing in common? Each of them is the brand of a cooperative.

Have you seen the initials FCX, PCA, or MFA? These are the intitials of cooperatives, also. Cooperative names embracing Farmers Union or Farm Bureau refer to farm organizations instrumental in their formation.

A cooperative is an organizational form of business. It physically resembles any other firm that does the same type of things or performs similar services. It looks about the same. It employs about the same kind of personnel in similar jobs. It usually charges the same price for feed and other supplies. It may pay the same returns for products marketed through it—products such as grain, cotton, fruit, vegetables, honey, livestock.

How a Cooperative Is Different

Then, what is different about a cooperative?

First, a cooperative is different in the way it handles its business receipts. In most cooperatives, the net margin over the cost of carrying on business is returned to the patrons who have used the cooperative. The return to each patron is in proportion to the patron's use of the cooperative. This return, called a patronage refund, is usually made at the close of the cooperative's business year. Through the patronage refund technique, final prices paid to cooperative members are often higher and prices they pay for goods or services lower than those received or paid by patrons of other firms.

Second, a cooperative differs from other types of businesses in its source of control. Investor-oriented corporations are controlled by stockholder investors. These may or may not be its users or customers.

A cooperative, on the other hand, is owned and controlled by its member-patrons. Members of a cooperative have an obligation to patronize it. The nature of this obligation ranges from voluntary to a legally binding contract, depending on such factors as the type of service provided by the cooperative, the willingness of members to bind themselves in writing, or the requirements of the cooperative.

And the voting members of cooperatives are active member-patrons.

Third, a cooperative is organized to serve the needs of its members, whereas other commercial firms—other corporations, partnerships, or individually owned firms—are organized to earn profits and returns on invested capital.

Purpose of a Cooperative

The primary purpose of a cooperative is to serve its members in a way that will enable them to realize higher incomes, lower costs, or more efficient and dependable services.

Cooperatives help people who want to remain independent, to own and operate their own business, and to increase their earnings.

In a cooperative, many people with similar problems, interests, and desires can combine their investment and influence in a business or service. They retain their right of individual ownership and decisionmaking, and at the same time enjoy the advantage of mutual effort.

There is a tendency to associate farmers with cooperatives. Actually, both farmers and city people use and are benefited by cooperatives. Many Americans read Associated Press news articles, belong to a group medical, hospital, or health association, or hold membership in one of the State affiliates of the American Automobile Association or a credit union. These are all cooperatives, all owned by the people who use them, all providing economic benefits to their users in proportion to their use.

So a great many of the products and services used in daily living come from cooperatives. A cooperative is a form of business that is useful and helpful

to people regardless of where they live or how they earn a living. Every person is touched by one or more cooperatives. All benefit from this contact.

Your Business

Cooperatives are a part of agribusiness.

Just what is agribusiness? Why should you be concerned about it? The National Farm Committee, Inc., Chicago, Ill., brochure, "Agribusiness Links Farm and City as Partners in Progress," answers these questions in this way:

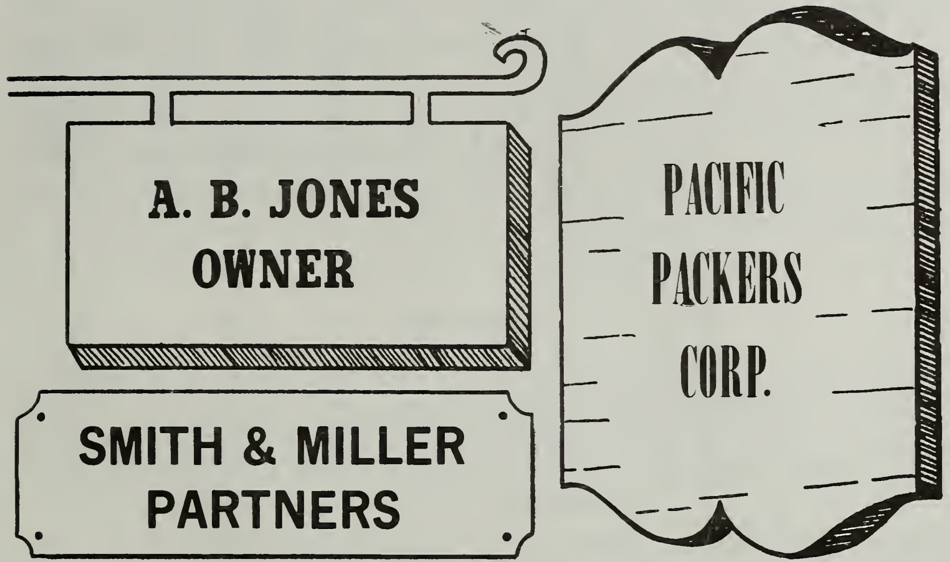
A dozen eggs...a sack of potatoes...a slab of steak...a chilled fresh fryer...a carton of milk...a can of tomatoes... We can buy them and hundreds of other items at almost any food store...at almost any time...and at reasonable cost.

What makes this so? Abundant, efficient production and modern know-how in processing and marketing.

From field to factory to family use...food and fiber are the basis of a facet of our economy that furnishes jobs and income for a third or more of America's working force.

Together, food and fiber production, transportation, processing, packaging, storing, advertising, distribution, and other activities associated with feeding, clothing, and to some extent, housing America's 216 million people constitute agribusiness.

And because...'round the clock, day in and day out, year in and year out, no matter where you live, who you are, or what you do, you are first and foremost a consumer...AGRIBUSINESS IS YOUR BUSINESS.



WAYS OF DOING BUSINESS IN THE UNITED STATES

A member-patron of a cooperative is a person engaged in a business enterprise.

Three basic forms of business organization comprise our American private enterprise system: The individually owned business, the partnership, and the corporation (table 1).

Individually Owned

The individually owned business is more dominant in farming than in any other segment of our economy. The most common type of farm business structure is the one in which the owner-operator makes the decisions and assumes the risk; he is the entrepreneur. And he usually performs physical labor.

Despite the growth in size of farms and the increased use of farm machinery, the division of labor now typical in so many other industries is still not characteristic in agricultural production. A farmer is often engaged in manual work, accounting, and bookkeeping; in making management decisions; and in financial planning. He is a combined owner, manager, and laborer.

Table 1

METHODS OF DOING BUSINESS UNDER PRIVATE ENTERPRISE

Features compared	Types of business			
			Corporation	
	Individual	Partnership	Investor-oriented	Cooperative
1. Who uses the services?	Nonowner customers	Generally nonowner customers	Generally nonowner customers	Chiefly the owner patrons
2. Who owns the business?	The individual	The partners	The stockholders	The member-patrons
3. Who votes?	None necessary	The partners	Common stock-holders	The member-patrons[1]
4. How is voting done?	None Necessary	Usually by partners' share in capital	By shares of common stock	Usually one-member, one-vote
5. Who determines policies?	The individual	The partners	Common stock-holders and directors	The member-patrons and directors
6. Are returns on ownership capital limited?	No	No	No	Yes—8% or less (usually less, if any)[1]
7. Who gets the operating proceeds?	The individual	The partners in proportion to interest in business	The stockholders in proportion to stock held	The patrons on a patronage basis[1]

[1]Basic cooperative principles.

Although some farms, even the family-type ones, are now incorporated, the predominant type of farm business is still an individual operation.

The individually owned business has these advantages: (1) It is easy to control—the owner's judgment is final; and (2) any profits are the sole property of the owner—they need not be shared.

But it has these disadvantages: (1) Any losses are borne by the owner—they cannot be shared; and (2) capital is limited by what the owner can put up or borrow—which often limits the size of the business.

Partnership

A partnership is a business jointly owned by two or more people who have agreed to operate on a partnership basis. Together, they provide or borrow the capital; reach decisions by mutual agreement; and are mutually responsible for repayment of debts. They divide the income or share the losses among the partners in accordance with the original agreement.

Father-and-son partnerships are not uncommon in farming after the son reaches an age of responsibility. The father may furnish the land and buildings, the son may do most of the manual labor, and they may each own livestock and purchase seed while sharing other operating expenses.

The partnership has two major advantages over the individual proprietorship: (1) The amount of available capital is usually greater, and (2) several partners may bring special skills and training into the firm.

Major disadvantages are: (1) Each partner is liable for any and all debts of the partnership (this is known as unlimited liability); and (2) if one of the partners dies or wishes to leave the organization, it must be dissolved and a new partnership formed.

Corporation

The third form of business organization in the United States is called a corporation. There are two major kinds of corporations. One is the investor-oriented corporation; the other is the cooperative. Both are State-chartered businesses, usually organized under the laws of the State in which they have their main office.

Investor-Oriented Corporation

An investor-oriented corporation is operated as a profit-keeping enterprise. It derives its capital funds by issuing shares of stock that are purchased by investors for their profit-making potential. The current price of such shares may vary from day to day.

Stock of many investor-oriented corporations is bought and sold daily on stock exchanges, the largest being the New York Stock Exchange. A stock exchange is actually a form of cooperative whose members are stockbrokers. Stockbrokers are persons or businesses who buy and sell shares of stock for

 their customers, who may be corporations, partnerships, or individuals.

Stock market share prices and number of shares sold in the various stock exchanges are published daily in many newspapers throughout the United States.

Investor-oriented corporations supplement the capital they derive from the sale of shares of stock by borrowing from banks, other financial institutions, and individuals.

Corporations have several advantages over a partnership. They have continuity of existence, limited liability of individual shareholders, and transferability of shares.

An investor-oriented corporation is a legal entity, an artificial person created when the State issues the corporation a charter to do business.

Because stockholders have limited liability, if the corporation fails, stockholders lose only the amount of their investment in stock.

The capital base of a corporation can be very broad. Thousands of stockholders may have invested money in the corporation by purchasing shares of stock.

Cooperative Corporation

A cooperative corporation is also a State-chartered business. But it exists to perform specific services for and provide economic benefits to its members rather than to make a profit for investor-owners. And it obtains a portion or all of its capital funds from the members it serves rather than from outside investors. This may be done by agreement with the members to withhold small amounts from sales returns, to make a small markup on member purchases, or to make assessments on some regular basis such as per unit of product sold or purchased, or per acre, per cow, or per month.

Some cooperatives raise a portion of their capital needs by charging a membership fee; others by the sale of shares of stock. Cooperative stock, however, is not traded on the stock exchanges. There is no active market because net operating margins belong to patrons rather than to investors.

The member-patron investment usually is a feature of the financial plan of a cooperative. In it, member-patrons agree on the retention within the capital structure of savings from operations. Thus, there is little or no prospect for increase in the market value of the cooperative stock as a reflection of corporate earnings, as in other businesses. For this reason—plus limitations on voting rights and transfer of shares—investment in the capital stock of a cooperative has little appeal to the outside investor interested in capital gains. Some cooperatives, however, provide a market for members' stock by either redeeming up to a certain amount of shares annually or serving as a go-between in bringing together a potential buyer with a potential seller. Often cooperatives supplement their capital structure by borrowing or by issuing bonds.

Cooperatives—just as investor-oriented firms do—are nearly always incorporated to provide their member-patrons the shelter of limited liability if the business should fail. In relatively rare instances, small cooperatives providing a limited number of services may choose to operate as an unincorporated busi-

ness. Under these circumstances, the cooperative has a legal status not unlike that of a partnership. There, liability is unlimited, and the death, entry, or withdrawal of a member makes it necessary to restate, usually in writing, the nature of the relationship between members.

The fundamental difference between cooperatives and other types of businesses is in objective. A cooperative seeks to realize economic benefits for its members from services that reduce costs, increase members' income, improve quality, provide an improved service, and develop the best use of members' resources.

Cooperatives thus exist to meet members' needs economically and efficiently. Other types of businesses are motivated by prospective profits on invested capital. Their entire pattern of operations—commodities handled, services performed, operating procedures—is planned and executed with profits as the goal. Actual operations may be similar or comparable, but the motive is different.

The difference in motive is evident in who receives the net margins. In an individually owned business, it is the owner; in a partnership, the partners; in an investor-oriented corporation, the stockholders; in a cooperative, the member-patrons.

WHAT IS A COOPERATIVE?

Cooperatives have three distinctive principles:
—Democratic control;
—Limited returns on invested capital; and
—Operation on a cost-of-doing-business basis.

Democratic Control

Democratic control means that final authority to control the affairs of the cooperative rests with the members who use it. This authority is exercised by voting at the annual member meeting and other meetings that may be called from time to time.

How is the voting power of members determined? The majority of cooperatives allow one vote per member. In some cooperatives, however, the basic

membership vote is supplemented to permit additional votes based on the previous year's patronage in dollars, tonnage, or other measurement.

Where voting varies by patronage, a member may cast up to a set number of votes. Investor-oriented corporations, on the other hand, allow voting power in proportion to shares of stock owned; that is, voting power is proportionate to investment.

The democratic principle is thus steadfastly maintained by relating voting power to use of the cooperative's services. As a rule, the member who uses his cooperative more has a greater interest in its progress and success. He is more apt to read its publications, to attend its meetings, and to keep informed of its activities and problems.

Limited Returns

Certain Federal and State laws that limit dividends on stock or voting rights, or both, determine whether a cooperative qualifies for the protection afforded by these laws. For example, the Capper-Volstead Act gives legal sanction to the right of farmers to formally organize and act together without fear of antitrust action against them for acting together.

For a cooperative to come within the protection of this act, it must *either* limit dividends on stock or membership capital to 8 percent per year *or* restrict voting rights to one member, one vote. In any case, it may not deal in the products of nonmembers to an amount greater in value than those it handles for its members. Each State also has laws that regulate the formation and operation of cooperatives.

Restrictions on investment returns discourage exploitation or control of cooperatives by entrepreneurs who would be more interested in returns on their own investment than in greater savings or returns to patrons.

At-Cost Operations

A cooperative generally does not retain the excess of gross proceeds over expenses—that which is called "profit" in an investor-oriented firm. It does not do so when its organization papers include a provision that establishes the obligation of the cooperative to return gross revenues in excess of costs to its patrons. With this obligation, or legally binding contract, *in effect before any transaction with patrons takes place*, the amounts involved never become corporate income—they belong to the patrons.

When the cooperative returns its net savings to its patrons it is, in effect, reducing its gross income, thus implementing the operation-at-cost principle. This procedure has important Federal income tax implications. For if the amounts involved never become corporate income, they cannot be taxed as corporate income.

However, the Federal income tax laws of this country set up certain criteria that a cooperative must adhere to in order that tax obligations are met at either the cooperative or patron level.

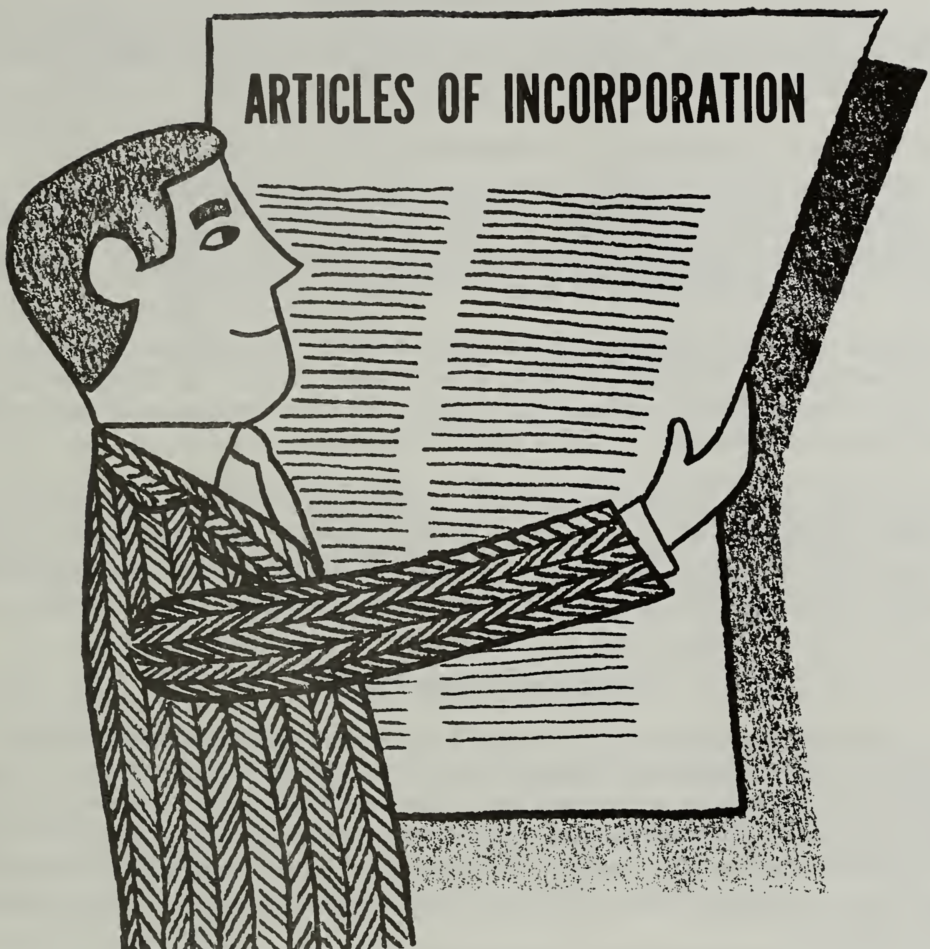
For example, some cooperatives may distribute patronage refunds only to

members, not to nonmember patrons. In this case, the earnings generated from nonmembers are treated as corporate income by the cooperative and thus are subject to corporate income tax.

The Internal Revenue Code requires that the patrons give their consent to the cooperative to treat the noncash portion of their patronage refund as the patrons' own ordinary income. Under certain circumstances, some patrons are unwilling to recognize noncash allocations as current income. In these cases, the cooperative pays the taxes at the corporate rate but can recover these tax payments when it later redeems its noncash allocations.

The term "nonprofit" is often used to describe cooperative operations. Cooperatives seek to operate in a manner that will yield no profit to the cooperative but rather a profit to their members from the services they perform. The well-managed cooperative thus seeks to increase its patrons' profits, rather than the profits of the cooperative itself.

The benefits of cooperative membership are derived from patronage—not from the earnings of invested funds.



HOW COOPERATIVES ARE ORGANIZED

Cooperative businesses are usually incorporated. To incorporate, a firm prepares a set of papers called articles of incorporation. It sends these to the appropriate State office (usually the Secretary of State) for review, approval, and filing.

Articles of Incorporation

Articles of incorporation specify the name of the organization, its purpose, the scope of its authority, its place of business or headquarters, the number of directors, and whether the capital is stock or nonstock. In other words, the articles tell *what* the coöperative is going to do.

An incorporated cooperative possesses the legal characteristics of an

 investor-oriented corporation. It differs primarily in the nature of the relationship between the organization and its owners, and the manner in which the excess of revenue over expenses is distributed.

Bylaws

In addition to the articles, all corporations, including cooperatives, must have a set of bylaws. Bylaws tell how the corporation is going to operate. They are normally prepared concurrently with articles of incorporation, because an attorney or other legal counsel is usually available at that time.

Bylaws are more descriptive and detailed than the articles. They typically contain provisions for membership eligibility, election of directors, annual meetings, officers' duties, voting rights, dues and assessments, and rate of dividends (if any) to be paid on member capital invested.

The exact nature of services to be provided by the cooperative for its members is generally not spelled out in the bylaws. Changes may be made from time to time to suit altering needs. Some flexibility in bylaw provisions is desirable because amendment of the bylaws is a time-consuming process.

Marketing Agreements

In a marketing cooperative, a marketing or membership agreement may be referred to in the bylaws as a separate document, or included as a section of the bylaws. A marketing agreement is a contract between the cooperative and a member. It may require the member to deliver and market through the cooperative his entire marketable production. It might be only a specified commodity produced on a specified block or blocks of land. It might require production in a specified manner.

The marketing agreement might stipulate that the cooperative is obligated to receive and market all of the commodity delivered by the member under the terms of the contract.

Membership

The relationship between a cooperative and its members often depends on the type of service the cooperative performs.

Some associations, particularly marketing associations, require a formal application for membership and issue a membership certificate. In some instances, the application must be accompanied by payment of a membership fee, usually refundable upon withdrawal. In other cooperatives, particularly purchasing cooperatives, membership is identified with patronage.

A patron making a purchase becomes eligible for membership if he qualifies as a producer. A nonmember patron ordinarily is not affected by a cooperative's bylaws.

The geographic areas served and the makeup of membership are elements that contribute to classifiable differences. Thus, cooperatives may first be differentiated as *locals* or *regionals.*

A *local* association provides services for a community, a county, or even several counties. Individuals are the members of these local cooperatives.

Local marketing associations usually perform a limited number of the first steps involved in marketing. In the case of farm supply associations, practically all sales are at the retail level. Local associations may or may not be affiliated with other cooperatives.

A *regional* cooperative is one that usually serves an area comprising a number of counties, an entire State, or a number of States. Two important classifications of regionals are based entirely on the makeup of their membership—federated or centralized.

A *federated* cooperative is actually a cooperative of cooperatives. The members of a federated cooperative are local cooperatives, operated by local managers appointed by and responsible to local boards of directors. Each local association in a federated cooperative is a separate corporate entity that owns a membership share entitling it to voting rights in the affairs of the regional.

The federated cooperative (often called a federation) has its own general manager and staff—and a board of directors elected by and representing the local associations.

The locals are autonomous but depend in varying degree on the federation for a variety of services. In purchasing federations, the services may include research, procurement, and manufacturing. In marketing federations, the locals often want federated advertising and product promotion, marketing, processing, handling surpluses, maintenance of product standards, and overall market contracts. Locals look to their federation, for example, to arrange and coordinate shipments.

A regional *centralized* association is structurally like a small-scale local cooperative—individual persons make up the membership. A *centralized* regional may serve patrons in an area covering at least 5 to 10 counties, but perhaps serve an entire State or States or parts of several States.

A centralized regional has one central office, one board of directors, and one general manager who supervises the entire operation, which may be conducted through several or many branch offices.

A centralized cooperative usually serves patrons within the relatively restricted membership area of a single State or region.

Both centralized and local associations obtain much of their capital from members who are investing as individuals. The federation is financed in part by its local member associations.

Federated cooperatives are often thought to be more practical for larger membership areas because of the distances involved. Problems of plant supervision, decisionmaking, and communication become complicated when locations are widely scattered.

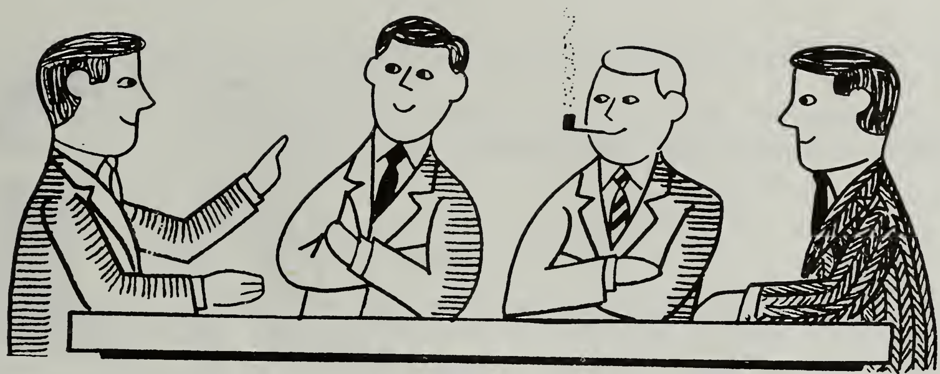
Usually the local cooperative is small enough to permit frequent direct

contact and exchange of ideas, impressions, and information between members and the employees. But here again definitions have become fuzzy. A local cooperative may serve as few as 5 or 10 members, or its members may number several thousand.

Federated, centralized, and local cooperatives can be equally democratic. For example, each of several locals in an area may have a director on the board of the federated cooperative. On the other hand, a centralized cooperative may elect its board of directors under a districting arrangement that assures a broad representation. And some centralized associations use advisory committees that provide channels of communication to management either directly or through the branch operations.

Classification of cooperatives into federated, centralized, and local is largely for descriptive purposes. For example, there may be some federated cooperatives with "mixed" membership—that is, their members may be individuals as well as local associations. In practice, the federation may have so many responsibilities and activities that it is essentially a centralized operation. Examples of these are management contracts with local affiliates, credit arrangements, and systems for distributing supplies directly from the federation to the individual member.

In turn, branches in centralized cooperatives may have considerable freedom in their operations.



THE COOPERATIVE AS A BUSINESS FIRM

Cooperatives follow business procedures similar to those of other business firms. They strive for efficiency, they aim to meet competition, they seek innovations, and they are acutely cost-conscious.

Cooperatives endeavor to maximize net proceeds, to minimize costs of acquisition and operation, and in general, endeavor to provide their services as economically as possible.

All successful cooperatives stress quality—of products marketed, processed, purchased, manufactured (such as feeds and fertilizers)—and service.

Four groups of people are involved in the operation of a cooperative:

—Member-patrons
—Directors
—The manager and his key assistants
—Clerical and operating employees

Member-Patrons

Member-patrons constitute the foundation on which the cooperative structure rests. Their needs are the reason for its existence. Their support, through patronage and capital investment, keeps it economically healthy. And their expanding requirements shape the cooperative's future.

Because the cooperative is organized to provide for the needs of its members, there must be channels through which the cooperative can be kept informed of those needs. Several such channels exist, one of the most important being the annual member meeting. At the annual meeting members learn how their cooperative has done during the year as the president, the manager, and other key officials make their annual reports.

At the annual meeting members have a chance to ask questions, make comments, and request changed or new services. At the annual meeting mem-

bers elect new board members to replace those whose terms of office have expired.

But along with the right to make their wishes known, member-patrons have responsibilities. Because patronage keeps the cooperative alive, members must provide patronage—they must use the cooperative services. Because growth makes for increased efficiency and economy, the ideal member-patron encourages new patronage by introducing the cooperative to his neighbors and friends. And because growth calls for new capital, the member is responsible for providing at least part of it.

The member also has some responsibility for participating in other ways. For example, directors are chosen from among the members. While selection as a director is an honor, it is also a grave responsibility. Cooperatives own assets worth thousands, even millions of dollars. Some do many millions of dollars worth of business a year. The members who serve as directors are responsible for administering these funds, placed in their care by the members who elected them to office.

Members participate in still other ways. For example, they may serve on committees, call on prospective new members, or represent the cooperative in various community activities. And finally, members are the ones who organize the cooperative at the outset.

Directors

Members elect directors at the annual member meeting. The board represents the members. It sets policy and is responsible to the members for efficient operation of the cooperative.

Directors hire managers.

Directors decide *what* the cooperative will do to accomplish the purposes for which it was created and how it will finance its operations. For example, directors approve borrowings for fixed capital purposes such as construction and land acquisition as well as for day-to-day operating expenses. Directors determine whether patronage refunds shall be paid out in cash or be offset

against the obligation of each patron to invest additional capital. And directors make the basic financial decisions.

Typically, directors receive nominal compensation for serving as board members plus an allowance to cover out-of-pocket costs incurred in carrying out their duties as directors.

Manager and Staff

The board of directors decides what a cooperative will do. The manager and his immediate staff decide *how* it can best be done—subject to board review—so as to realize the basic objective of serving members more effectively.

As cooperatives grow in size of operations, variety of services provided, and number of patrons served, they usually expand their management team to include specialists. These may be experts in such fields as member relations, publications, personnel relations, accounting, and transportation. They may include those with special knowledge of the various commodities marketed, purchased, or provided for members such as milk, butter, eggs, fruit, feed, seed, fertilizer, or electricity. Under ideal conditions, the manager's principal tasks are planning, reporting to the board of directors, conferring with members of his management "team," maintaining good organizational relations, and controlling the cooperative's operations.

One of the major problems of large cooperatives is communication with members. Often, in a large cooperative, the manager and his team are known personally to relatively few patrons. The only time management may be seen by many members is at the annual meeting. This may be such a large affair that it allows little time for conversation with members.

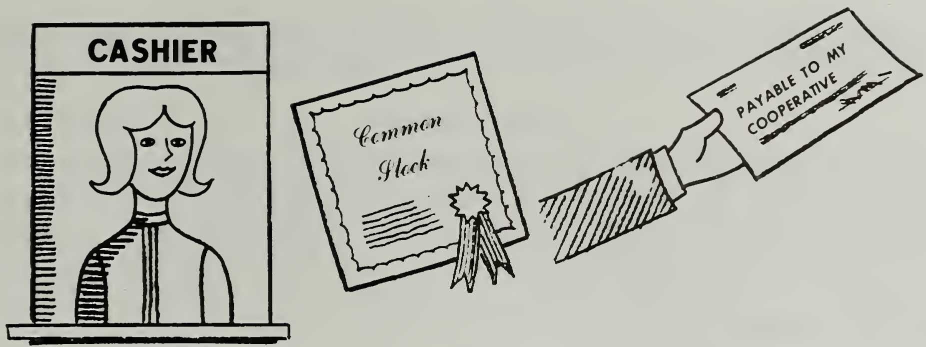
In a relatively small or local cooperative, on the other hand, it can be fairly easy to maintain good relations between the cooperative and its members. In some small cooperatives, the manager himself does this by personal contact, keeping members informed of their cooperative's progress and activities, and encouraging them to keep him informed of their problems, needs, and evaluation of cooperative services.

The manager is the intermediary between his staff and the board of directors. He reports at board meetings on the activities of the association, outlines any special problems, discusses any operational changes, and presents financial matters in detail.

Once a year he presents the plan of operation and budget for the coming year or years. These are subject to the approval of the board of directors and are often a joint product of the manager and the board. Periodically, he reviews with the board actual performance against budget projections and explains variations in performance.

Staff meetings are scheduled in which the manager discusses operating procedures and problems with his key employees. At these meetings, the manager helps his staff members become familiar with cooperative policies and objectives, strengthens interdepartmental relationships, and clarifies individual responsibilities.

Often, the only cooperative employee a member encounters over a period of months is a billing clerk, a cashier, a truck driver or fieldman, or a warehouseman who loads supplies into the patron's car or truck. Therefore, many cooperatives have regular training programs to help employees learn about the cooperative for which they work and about cooperative principles and practices. Actually, these workers are the employees of members, because members own the cooperative. By their efficiency and friendliness, well-trained employees attract patronage and build favorable attitudes toward the cooperative—both as a business and as a desirable institution.



HOW COOPERATIVES ARE FINANCED

Cooperative members in the United States finance their cooperatively owned business by using all the standard methods employed by other business corporations plus a few unique to cooperatives.

Capital Structure

If the association is a capital stock organization, members receive stock certificates as evidence of their ownership interest. More than one type of stock may be issued, but usually no more than two types are necessary. Most stock cooperatives issue one share of common stock per member to show membership. Preferred stock is issued to show additional capital contributions.

Common stock is usually the voting stock. Preferred stock is generally nonvoting.

If the association is a noncapital stock organization, it issues some kind of certificate—sometimes a certificate of equity—to show capital contributions of members. Many nonstock cooperatives raise some or most of their original member capital by means of a membership fee.

The capital structure usually is kept as simple as possible. If stock is

issued, par value is kept low—$5, $10, or $20, for example. Shares of this size are easier to sell, transfer, or pay off than shares of higher value.

Capital Needs

Total capital needed by a cooperative depends on such factors as volume of business it does, type of service it provides, kind of physical facilities needed, nature of competition it faces, seasonality of the commodities handled, and degree of risk it takes in the day-to-day conduct of its business. Whatever the total amount of capital, it normally is related to the number of members and volume of business.

Two kinds of capital are used—fixed and operating. Fixed capital is money to buy such things as land, buildings, and equipment. Operating capital is the money required to keep the business going—advancing members money on the products marketed for them, obtaining farm supplies, paying the light and water bills, paying the employees, and buying the operating supplies such as packing cartons, office supplies, and miscellaneous items.

Three important sources of this capital are:

—Members, who invest in the cooperative to get needed services.

—Nonmember patrons; other cooperatives; marketing and supply companies; and individuals, firms, and organizations that invest in the cooperative to earn dividends or because they are interested in the welfare of the cooperative.

—Loans from such lending agencies as a Bank for Cooperatives, a commercial bank, or, in certain cases, one of a number of Government agencies.

Banks for Cooperatives are part of the Farm Credit System, offering a complete line of credit to agricultural cooperatives, including fishing cooperatives owned by producers.

Some cooperatives also obtain financing from their wholesale suppliers and other creditors to the extent of the credit extended on merchandise purchased. Marketing cooperatives obtain a measure of financing to the extent of the time lag between receipt of the commodity from member-patrons and actual settlement with them.

Initial Capital

Initial capital is needed (1) to buy land, buildings, equipment, and other facilities and (2) to operate the business the first year.

Part or all of this original capital comes from the members. Usually some of it comes from outside credit sources.

Investing initial capital is a basic member responsibility. These initial investments are actually evidence of good faith of the members—their "earnest money." Local public-spirited citizens may supplement members' investments.

After such capital investments reach a certain level, they are often used as a credit base in applying for a loan.

Member Capital

The members' share of initial capital should be large enough to make them realize they have a financial stake in the business to protect. Also, it should be a sizable proportion of total need because no credit source would be likely to take financial risks in a cooperative if its members demonstrate an unwillingness to do so.

As a general rule, each member's share is proportionate to his anticipated use of the cooperative. It is usually made in cash. Often a few members may contribute more than their share. In a cooperative this will not entitle them to any special privileges.

Under certain conditions, if members of a cooperative do not have enough funds or credit to subscribe their share of initial capital, the cooperative may be eligible to obtain loans from the Farmers Home Administration, U.S. Department of Agriculture, under the consolidated Farm and Rural Development Act as amended. These loans guarantee to promote business and industrial development in rural areas. Applicants must prove economic viability. Preference is shown to projects in towns of 25,000 population or less, or in open country.

Possible cooperative uses of Farm and Rural Development funds include, but are not limited to: business and industrial construction, conversion, acquisition, and modernization; purchase and development of land, easements, equipment, facilities, machinery, leases, and supplies; startup costs and working capital; and the refinancing of debts, when refinancing results in a sound loan and protects the Government's interest.

Facility Loans

Long-term credit from Banks for Cooperatives or other outside sources is the usual way to acquire part of the money to construct buildings, and buy equipment or plant sites.

Main sources of facility loans are Banks for Cooperatives, commercial banks, insurance companies, Farmers Home Administration, and other cooperatives.

It is also possible for cooperatives serving rural patrons to obtain facility loans jointly from Farmers Home Administration and a district Bank for Cooperatives under feasible conditions.

Rural Electrification Administration, through rural electric cooperatives, may lend funds to a cooperative to purchase electric equipment and related items.

Operating Loans

Operating capital loans generally are short- or medium-term loans. The medium-term loans supplement the cooperative's own capital funds. The short-

term loans are generally seasonal. They finance seasonal increases in inventories and accounts receivable, as examples.

Cooperatives may obtain operating loans from Banks for Cooperatives and the Farmers Home Administration as well as commercial banks and other lenders.

Commodity Loans

Marketing cooperatives must often store their products, such as grain or frozen citrus concentrate, both for long and short periods. In some cases, a commodity loan is necessary to pay an advance to the member before his product is sold. Such loans come from a Bank for Cooperatives, the Commodity Credit Corporation, a commercial bank, or other loan sources, and are secured by warehouse receipts.

Sources of Special Loan Capital

A number of Federal Government agencies lend money to cooperatives providing special services.

An important source of loan funds to rural electric and telephone cooperatives is the Rural Electrification Administration (REA). REA loans are made: (1) To provide electric service in rural areas through construction of power lines and related facilities; and (2) to finance the improvement and extension of telephone lines in rural areas.

National Rural Utilities Cooperative Finance Corporation (CFC) is an independent, self-help credit institution created by its member rural electric systems to provide supplemental financing for rural electric cooperatives.

The Rural Telephone Bank was established as an agency of the United States by amendment to the Rural Electrification Act to provide supplemental financing for rural telephone systems.

The Bureau of Fisheries, Department of Interior, lends to fish marketing cooperatives; the Bureau of Indian Affairs, to cooperative organizations of Indians, Eskimos, and Aleuts; the Bureau of Reclamation, to small cooperative reclamation projects, primarily for irrigation in 17 Western States.

Revolving-Capital Financing

Revolving-capital financing, widely used by cooperatives, is peculiarly suited to cooperative operations.

Here is the way it works.

As a member does business through a cooperative, he authorizes the cooperative to use a portion of the money it has accumulated or saved through his patronage. Or the members may furnish capital based on the dollar value or physical volume of products sold or bought through the cooperative.

In either case, this money is identified as a capital investment of the member and is used for capital purposes only.

The money thus collected by the cooperative from patronage is credited to the member on the cooperative's books. At the end of the year, the member is notified or issued some evidence of the total amount he has invested in cooperative capital for the year.

The capital accumulated in this manner may be treated as a revolving fund. The funds may be used for repayment of debt, expansion, or for such other capital purposes as authorized by the board of directors. As such funds continue to be accumulated, the board authorizes the repayment of funds to those members who contributed funds in the past.

Repayment goes first to members whose contributions are the oldest in the revolving fund. Normally each year's contributions are issued in a numerical series. Thus, the oldest of the numbered series comes up for repayment first.

As a general rule, the member's evidence of revolving fund contributions does not have a specified repayment date (due date). Rather, the board establishes revolving fund periods after taking into account the association's financial requirements. Some cooperatives revolve funds at intervals of 5, 7, or 10 years. These time periods are not legal requirements but they are considered as moral commitments on the part of the cooperative.

The revolving-capital plan allows members to build up equity in their association in proportion to the amount of business they do. It ensures that current investment in the cooperative is largely by the current patrons. It provides an orderly process for returning or withdrawing a member's investment without impairing the total capital structure. And it gives the business flexibility to meet changing conditions that may cause financial needs to change.

The revolving-capital plan creates some membership problems. Under some circumstances, the revolving period may have to be lengthened. The lengthened redemption period may place a financial burden on some members. Thus, successful operation of a revolving-capital plan calls for members' understanding of their financing obligations.

Reserves

Like any other business, a cooperative builds up two types of reserves—valuation and capital. Reserves for such items as depreciation are called *valuation* reserves and are accumulated by a charge to operations. From an accounting standpoint, they are handled as an operating expense as a means of charging a pro rata share of the intitial cost of a fixed asset over the estimated life of the asset.

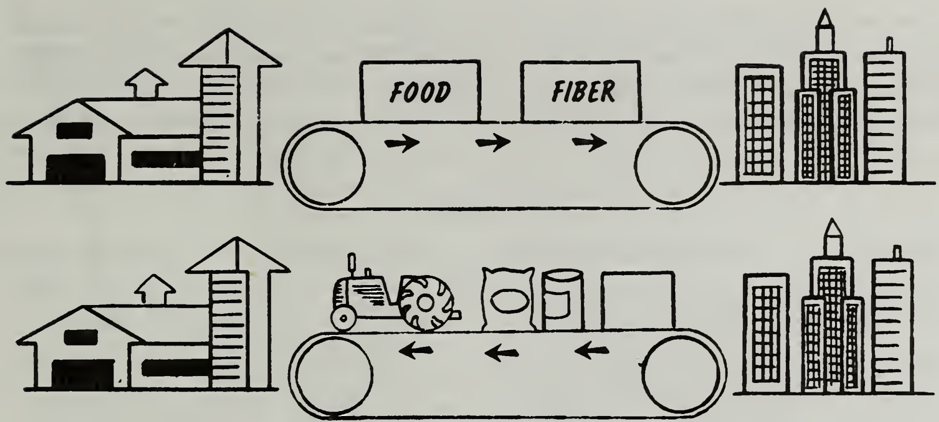
The second type of reserve, a *capital* reserve, is usually, although not always, built up from net operating margins.

Capital reserves are of two general types: (1) Those reserved to meet an unexpected crisis, such as a poor business year; and (2) those to meet a large planned outlay.

The latter might be a building fund for new or expanded facilities, perhaps adding new services, or a modernization program where the cost exceeds

the current financial capacity of the cooperative. When such a need arises, the cooperative can use its reserves instead of borrowing money, curtailing its services, or impairing its capital.

Thus, reserves protect the capital investments of members. And when a cooperative operates strictly on a nonprofit basis, it allocates capital reserves to all its patrons on the basis of the use they have made of the cooperative's services.



COOPERATIVE SERVICES RELATED TO MARKETING AND PRODUCTION

At one time it was relatively easy to categorize cooperatives as being "marketing," or some other readily identifiable type.

But as our economy has become more complex, so have our cooperatives. Today, most marketing cooperatives also purchase supplies for members. Many cooperatives extend some kind of credit and in some instances even operate a credit corporation for the convenience of members.

Cooperatives have been serving as economic tools providing a wide variety of services in one form or another in this country since the days of the colonies. The time-honored threshing bee, the neighborhood barnraising, and in the early 1800's the cheese rings are all examples of informal but true cooperative activity.

While marketing and purchasing cooperatives are often cited as examples of cooperative endeavor, farmers and others have provided for many other needs on a cooperative basis.

All cooperatives have the same objectives: To provide services where these were not otherwise provided (such as marketing, insurance, or electric power); to provide these services at lowest possible cost (such as cotton gins); or to upgrade productivity (such as mutual irrigation companies and artificial breeding cooperatives). Indeed, early settlement in much of the arid southwestern part of the United States was made possible to a substantial degree by mutual irrigation companies.

Probably the most widely known of all rural cooperative services, next to marketing and purchasing, are the three types of cooperative credit made available through agencies of the Farm Credit System; and rural electricity, made available through rural electric cooperatives.

Cooperative leadership has been chiefly provided by specialists in the several fields—experts on marketing, farm supplies, insurance, dairy cattle bloodlines and breeding, irrigation, or electric power. The availability of technical knowledge of such specialists is a valuable service in itself.

Marketing

Over the years, American farmers have learned many new techniques for increasing yields and reducing manual labor. At the same time, finding satisfactory markets for their products has become an increasing problem.

Many farmers are more effective in production than in marketing. Frequently they lack the time or capacity to understand and satisfy the demands of today's mass markets. Cooperatives provide them with the marketing tools they need. For one thing, they furnish an increasing variety of off-farm marketing services. In response to the market demand for high quality and standardized products, they have pioneered in assembling products from many producers, and then carefully and accurately grading the product to meet buyer specifications as to size, quality, color, or other terms.

By paying producers on the basis of grade and quality, cooperatives encourage farmers to produce the kind and quality of product most in demand.

They process or pack in a form acceptable to large-volume buyers. (Processing includes such activities as canning, pasteurizing, concentrating, churning, cheesemaking, drying, extracting, freezing, and ginning.)

Cooperatives transport, store, advertise, and promote products for their members. They explore and develop new trade channels, domestic and foreign.

Through research they develop new products or find new uses for what they produce.

Cooperatives have become a valuable bargaining tool for farmers. Compared with producers in other industries, agricultural producers typically lack bargaining power. Why? Because individual farmers produce relatively small volumes and because they lack the bargaining advantage that is associated with product differentiation. (A differentiated product is one with distinctive characteristics that can be emphasized in advertising and that give it special desirability for users who value such characteristics.)

During recent decades, business firms that buy agricultural products have steadily grown in size. For example, many food processors and packers are large corporations with great bargaining strength. Similarly chain food stores that buy fresh produce and other products in large amounts possess commensurate bargaining power. Cooperatives help farmers match the bargaining strength of other firms.

Marketing cooperatives benefit consumers as well as producers. Because they place emphasis on grade and quality, they have made producers more quality-conscious. Standardized packs of food and food products help consumers shop more efficiently.

Cooperatives' efforts to minimize costs of marketing have served to build cost-consciousness among all who are engaged in food and fiber marketing activities. And this in turn helps hold down costs to consumers.

Bargaining cooperatives are a special type of marketing cooperative. When processors of agricultural products have become few in number or very large in size, bargaining cooperatives are an effective marketing tool for farmers. They serve their members by negotiating with canners, packers, or processors on behalf of members. These negotiations may involve such matters as price, quality, and time of harvest or delivery.

Bargaining cooperatives generally do not take physical possession of the product. The actual sale of the product may be made by the farmer to the buyer, but on terms agreed to by the cooperative. This type of marketing cooperative is used by growers of fruits, vegetables, and sugar beets, and by many milk producers.

Marketing cooperatives teach producers about marketing and markets. Through their cooperative meetings and publications, farmers learn the costs of marketing their products, consumer preferences, and the need for advertising and brand promotion.

Through marketing cooperatives, farmers extend control over their product at least one step past the farm gate as it travels to the consumer. So long as the cooperative retains either physical possession or legal title to a commodity handled by it, its members have a voice in the distribution and sale of the commodity.

This control may, in the case of a product to be canned, for example, be confined to bargaining on grower price and terms of delivery; it may, in the case of milk, include the manufacture of dairy products and delivery of the cartoned product by the cooperative to consumer stores and supermarkets.

Perhaps the most important contribution of marketing cooperatives is to develop for the producer a broad market—in terms of geographic dispersion as well as variety of uses. Thus, in times of abundant supply, small surpluses have less price-depressing effect, and prices tend to be more stable.

Membership in most marketing cooperatives is open to all producers who fully meet membership and production requirements. Exceptions are cooperatives with seasonally limited capacity or outlets.

A member may withdraw from membership during specified dates annually, although some cooperatives require that a new member retain membership for a minimum beginning period of 2 or more years. Some marketing cooperatives are closed to new members for a brief season of the year to permit a preliminary estimate of the volume to be handled for the coming season.

A corporation actually engaged in growing agricultural products, such as a corporate farm, may become a member of a farmer cooperative. And, under special circumstances, a marketing cooperative may hold membership in another cooperative handling the same commodity and market a portion of its volume through the cooperative to which it belongs.

Farmers characteristically have sold their output at wholesale prices while paying retail prices for many of their input needs. They gained little advantage from product differentiation; they purchased in relatively small amounts and often paid extra for products with name brands such as feeds, farm equipment, and petroleum products.

To overcome these problems, farmers turned to the cooperative as an economic tool. In some cases, wholly new cooperatives were organized to manufacture ready-mixed feeds, to purchase, clean, and distribute high quality seed to members, or to provide other related production services.

Initially, cooperative purchasing was quite informal. A group of farmers would get together and pool their orders to gain the advantage of carlot prices on major farm input needs such as feed and fertilizer.

The demonstrated benefits to producers encouraged them to organize more formal or incorporated cooperatives with full-time managers and warehouses to handle other production supplies such as seed, spray materials, petroleum products, farm equipment, fencing, and roofing.

Cooperative purchasing began about 1850 by farmer clubs in Wisconsin and Illinois. After the Civil War, local and State granges acted as agents to pool orders and buy needed supplies for direct shipment to farmers. In the early 1900's, the number of purchasing cooperatives grew steadily.

But the real expansion in cooperative purchasing followed 1930, stimulated first by the need to cut costs during the depression, later by shortages of needed materials caused by World War II.

This same period saw the rise of a number of strong and progressive regional cooperatives—federations of locals for the most part. These regionals had the volume and financial strength needed to own and operate such large-scale facilities as oil refineries, fertilizer manufacturing plants, and feed mills that could give members more assured sources of supply for their major needs.

As a result, today's farmer can share, through his local supply cooperative, in the ownership of and benefits from oil wells, petroleum refineries, phosphate and nitrogen plants, feed and seed research farms and laboratories, and other large-scale activities.

Farmers obtain membership in most purchasing cooperatives by acquiring a share of common stock (the par value often may be $1 to $50) and agreeing to abide by the bylaws. In others, patronage (by the producer) is the sole requirement for membership.

Purchasing cooperatives do not usually require members to sign an agreement. Members are free to buy farm supplies wherever they choose. However, a few purchasing cooperatives stipulate a minimum annual patronage requirement. Nonproducers may be patrons but cannot become members in farmer cooperatives.

Major objectives of purchasing cooperatives are: (1) To effect savings for

member-patrons through quantity purchasing and manufacturing and efficient distribution methods; (2) to procure the type and quality of supplies best adapted to the members' farms and needs; and (3) to provide related services that meet the needs of member-patrons.

The efficiency and reduced per unit cost associated with large volume purchasing and manufacturing are passed on to member-patrons in the form of patronage refunds at the close of the fiscal year. Such refunds are distributed according to the amount bought—either on a dollar basis or on a per ton, per gallon, or other unit basis.

If the cooperative needs more capital, it may defer and retain some of the refunds for a few years and then start redeeming or revolving the oldest amounts.

Purchasing cooperatives can generally adapt more easily to changes in environment and agriculture than marketing associations. For example, when rural areas with citrus orchards were urbanized and succeeded by houses and shopping centers in much of southern California, many citrus marketing cooperatives had to sell their facilities and discontinue their operations.

On the other hand, some purchasing cooperatives, faced with similar changes, stocked up to meet new needs, adding such supplies as lawn and garden seed and fertilizer, sprays, bedding plants, lawnmowers, hand tools, petroleum products, and auto supplies needed by suburban residents. These cooperatives continue to serve their farmer members and at the same time adjust to new condions and gain new patrons.

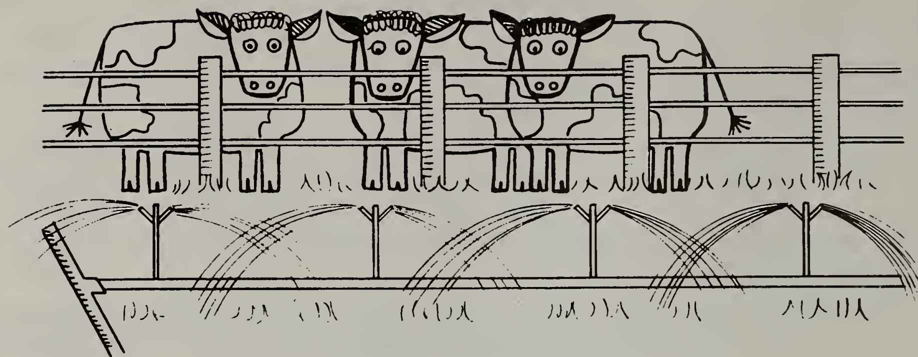
Services provided by the typical local purchasing or farm supply cooperative vary somewhat with the area in which it operates. Some carry a relatively limited line of supplies related to particular member needs. Petroleum cooperatives, for example, may purchase and distribute only petroleum and related supplies—gasoline, heating oil, lubricants, tires, batteries, automotive supplies, and the like.

Most local purchasing cooperatives, on the other hand, carry a wide variety of supplies needed for the production of several farm commodities. Such cooperatives may purchase or mix feed and blend fertilizer, clean and sell seed, distribute automotive needs such as gasoline and tires, and carry a full line of building supplies and tools. Some cooperatives have developed more adequate farm service centers designed to provide members with one-stop shopping.

A basic service extended by most purchasing cooperatives is on-farm delivery. Feed is delivered in bulk to farmers' bins. Cooperative bulk tanktrucks deliver fuel oil directly to farm storage tanks and often to the tanks of other rural residents.

Many cooperatives provide a custom fertilizer spreading service—they not only deliver fertilizer to the farm, but also spread it directly on the field with specialized equipment.

Some petroleum cooperatives operate special trucks to deliver, repair, and mount tractor tires on farmers' equipment in the field.



ADDITIONAL COOPERATIVE PRODUCTION SERVICES

From the days of the earliest settlers, Americans have been using cooperatives to solve mutual problems and provide specialized services. The early fire departments, for example, were truly cooperative—they consisted of neighbors passing water buckets from hand to hand to put out the fire on a neighbor's property.

More recently, cooperatives have been used to provide an ever widening variety of specialized services. For example, fruit growers in California have formed pest control cooperatives to own and operate highly specialized equipment. Near Washington, D.C., is a cooperative farmers' market operated by wives of farmers to sell things the wives have produced such as baked goods, handicrafts, and potted plants.

Dairy farmers in Wisconsin have organized a data processing cooperative whose major piece of equipment is a computer. The computer processes, analyzes, and reports results of periodic tests performed by dairy herd improvement association technicians. The results are available to the dairymen members much more rapidly through use of the modern data processing equipment.

In some parts of the Nation, the use of cooperatively owned and operated farm machinery has declined as farmers become large enough to have their own. A variation of that trend is for two or three neighboring commercial-size farms to jointly own and operate specialized machinery.

However, in the late 1960's renewed interest arose in the use of cooperatives to provide specialized services involving large and expensive machinery.

Much of this interest was stimulated by the Farmers Home Administration (FmHA) of the U.S. Department of Agriculture.

In one State, farmers in four counties, aided by an FmHA loan, organized a cooperative to clear brushland and seed it to permanent pasture grasses.

In another State, farmers, again aided by an FmHA loan, organized a ditch-cleaning and land-terracing cooperative. These farmers irrigate their crops. A continuing problem was keeping the irrigation ditches clear of weeds and brush, and building and repairing the dikes to guide and contain the water used in irrigating the crops. The new cooperative can do these jobs, using special equipment, much faster and cheaper than could individual farmers working by themselves.

Irrigation

Much of the western part of the United States could not have developed, agriculturally or otherwise, without the construction of irrigation systems. Farmers' irrigation cooperatives played an important part in the development of these systems. In fact, it has been estimated that cooperative or mutual irrigation companies supply water for about 30 percent of all the land irrigated in the United States.

Mutual irrigation companies are most numerous in Colorado, Utah, California, Montana, Wyoming, Idaho, and Oregon. They are composed of member-farmers who are organized to provide water for themselves, at cost. While a mutual irrigation company may sell some water to nonmembers, such sales are usually held to not more than 15 percent of company business volume.

The main activities of a mutual irrigation company are: (1) Acquiring or developing water, and (2) distributing the water to the land of users, or to some point from which users may direct it to their lands.

Because irrigation is indispensable to large areas of the Southwest, and elsewhere, it follows that the water supplies developed and controlled by irrigation companies are extremely valuable. Without water, many thousands of acres of land would be relatively worthless. So these companies are particularly important to their member-owners.

Mutual irrigation companies may be incorporated or unincorporated. Shares in the company may be appurtenant to (transferred with) the land being irrigated, or they may be owned independent of land. Stock appurtenant to land has no value in itself, because it cannot change hands without the land. Nonappurtenant stock may have considerable value, depending on the scarcity of or demand for water, because the share represents the right to receive water.

As a rule, the water right is for a proportionate share of the total supply of water available, but occasionally for the quantity of water the shareholder asks for, and which he pays for on the basis of the quantity received.

Control of a mutual irrigation company, like that of any other cooperative, rests with the member shareholders through a board of directors. Voting is usually on the basis of shares of stock held.

Many mutual irrigation companies are small enough that the secretary is also the manager and ditch tender. Others are large enough to require a sizable staff. Perhaps the most important duty of these companies is responsibility for the allocation, distribution, and delivery of water. Water is delivered either on rotation, demand, or continuously.

Grazing Associations

Since the early 1900's, livestock producers have teamed up with the Federal Government to use, and improve while using, certain public and private land. Often this teamwork has been through cooperatives.

In 1934, Congress passed the Taylor Grazing Act. This authorized the Secretary of Interior to set up grazing districts that, in his judgment, should be used for grazing livestock or raising forage crops.

The machinery for setting up grazing districts was fairly simple. Because they usually included both public and privately held land, public hearings on feasibility of the proposed districts were held. If found to be feasible, the Secretary of Interior issued rules and regulations designed to ensure that the objectives of the act respecting the districts would be met.

These objectives are to: (1) Regulate occupancy and use; (2) preserve the land from abuse; (3) develop the range in an orderly manner; (4) protect and rehabilitate the grazing areas, and (5) stabilize the livestock industry dependent on use of public land at the time the act was passed.

Once a grazing district was approved, the Secretary issued grazing permits for use of the land so as to carry out the objectives of the act. Livestock producers were permitted to form national grassland cooperative grazing associations under State law and obtain grazing permits. These permits were issued for up to 10 years, subject to renewal.

In addition, grazing leases are sometimes issued on scattered tracts of public lands lying outside of organized grazing districts.

Permit holders, who may be individuals, groups, cooperatives, or corporations, pay grazing fees set by the Secretary. They also carry out such range improvement practices as building fences and reservoirs.

Since the early 1900's grazing associations and others have been using certain areas of our national forests.

The authority of the Secretary of Agriculture to permit, regulate, and prohibit grazing in the national forests emanates from the Organic Administration Act of June 4, 1897, and the Granger-Thye Act of April 24, 1950. This authority has in turn been delegated to the Chief, Forest Service, by Secretary's regulations.

Livestock grazing in the national forests is administered under a permit system. The permits may be issued to individuals, partnerships, corporations, or grazing associations, usually for 10 years.

In some instances grazing agreements are entered into with grazing cooperatives. Under these agreements, the grazing use of the Government lands is fully coordinated with the use of the lands belonging to or controlled by the association or its members. These types of agreements are prevalent on most of

the National Grasslands that were incorporated into the National Forest System in the early 1950's.

It has been a longstanding policy of the Forest Service to cooperate closely with the livestock industry and with the grazing users in administration of grazing use of National Forest System lands. The Forest Service has sponsored local livestock associations and advisory boards. These have played an active part in developing policies and plans for managing livestock on the national forests.

Many of these local associations have been established to provide a cooperative working group to manage the livestock owned by individual members that grazed in common on a particular area of range known as a range allotment. These associations work closely with the forest ranger in developing plans of management for the grazing allotments involved. They either provide money through assessment to hire riders, distribute salt, maintain improvements, and do other management work, or they agree on how this work will be done by the various association members. Many of these associations were established in the early 1900's and have been functioning continuously since that time.

In addition to these local associations, the Forest Service has sponsored a number of advisory boards. These boards are generally formed to get representative coverage of a national forest or a subdivision thereof. The membership of the board is selected by the majority of people who hold grazing permits.

These boards make recommendations as to policy and plans. They also serve in an advisory capacity to the forest supervisor when individual permittees believe they have been aggrieved by some action of the local forest officers.

COOPERATIVE SERVICES CONTRIBUTING TO CONVENIENCE, COMFORT, SAFETY, AND HEALTH

In discussing cooperatives, we usually pay the most attention to ways in which they contribute to our income. But there are some cooperatives that provide services only indirectly related to the way we make our living. These cooperatives help make our lives a little more comfortable in one way or another.

Health

In some sparsely populated areas, it has been difficult to attract and hold competent doctors and medical facilities. But with increasing awareness of the importance of good health and skilled doctors has come the development of rural health cooperatives. By pooling members' resources, these associations have been able to build clinics, attract good doctors, and devise medical programs keyed to the needs and incomes of the members.

Similarly, city people in a number of communities have organized group health cooperatives to provide general or specialized medical services, equipment, and medicines.

Health cooperatives are like most other cooperatives in being formally incorporated, and democratically owned and controlled. The members elect a board of directors to establish policy and employ a business manager. Because of the nature of the services provided by a health cooperative, doctors on the staff control the medical aspects of the association and may consult with the board from time to time on policy matters.

The health cooperative serves the staff doctors as well as the members, in the sense that doctors are freed from administrative problems, finances, housekeeping details, and other distractions ordinarily associated with professional practice. The doctors can spend full time being doctors. In some instances, they have access to highly specialized and expensive equipment beyond the reach of the individual medical practitioner.

Electric and Telephone Cooperatives

Today, nearly every family in rural America has electric light and power, thanks in substantial degree to the Rural Electrification Administration (REA) and to member-owned rural electric cooperatives. Most also have telephone service, thanks to REA and telephone cooperatives.

Electric and telephone cooperatives are like other cooperatives in most respects. They are democratically controlled, they provide services at cost, and they exist for the sole purpose of providing service for their member-owners. But they differ from other cooperatives in two major respects. Because both electric and telephone cooperatives have exclusive right to serve specified rural areas in most States, anyone living in those areas who wants electric or telephone service must become a patron, and thus a member of the cooperative. Another difference from other cooperatives is in the use of Government financing by the rural electric and telephone systems.

The cooperative is a good credit risk. The electric cooperative has borrowed—on an average—a total of $9.2 million from REA in several loans. Its net worth as of December 31, 1975, stood at $2.6 million or 32.7 percent of its total assets. Figures for cooperatives in the newer REA telephone program are lower but the record is equally good.

Rural Electric Service

In 1935, REA was created to help farm families and other rural people get electricity on a continuing basis. A year later, Congress passed the Rural Electrification Act. This legislation authorized REA to make loans in an amount determined annually by Congress, for the construction of facilities to serve persons in unserved rural areas. These loans are for a maximum period of 35 years.

In 1973, the Rural Electrification Act was amended to expand the resources available for financing rural electric and telephone systems, provide for insured and guaranteed loans at reasonable interest rates, and reduce the impact of the REA program on the Federal budget. A revolving fund was established in the U.S. Treasury as the source of all REA loans. This fund is replenished through collections on outstanding and future REA loans and from the sale of borrowers' notes to the Secretary of the Treasury or the private money market. Limitations on the amount authorized for loans may be imposed by Congress annually.

REA guarantees loans to facilitate obtaining financing for large-scale electric and telephone facilities from non-REA sources. Guarantees are considered if such loans could have been made by REA and may be made concurrently with an REA loan.

Rural electric cooperatives also have their own self-help institution, the National Rural Utilities Cooperative Finance Corporation (CFC) as a supplementary financing source. Under a form of common mortgage agreement, REA

 gives loans made by CFC and other non-governmental lenders equal status with those of REA on a pro rata basis.

REA also offers its borrowers technical assistance in engineering, accounting, and management development.

Most REA electric borrowers are rural electric cooperatives. About 914 of these nonprofit organizations are active borrowers. Each is an independent, locally owned business enterprise, incorporated under laws of the State in which it operates.

Membership—Nearly all consumers served by an electric cooperative are members. They share ownership of the electric system and have a voice in its operation. There are, altogether, close to 9 million owner-members of these cooperatives. Each member has one vote in the election of the board of directors and in any other decisions brought up at the annual meeting of the organization.

Members of rural electric cooperatives pay a membership fee of $5 to $10 that is generally returnable in case the member leaves the area. Ownership investment, in place of shares of stock, accumulates for members from any amounts in excess of the cost of service that they pay in their monthly billings.

Electric Rates—The charge for electric service from an electric cooperative is set at a level to cover the cost of providing the service, plus an amount to repay the REA loan on schedule and a small margin to assure sufficient operating capital and reserves.

Retail rates depend to a great extent on the wholesale cost of power. REA has lent its position in the negotiation of power contracts that will give the cooperatives a better opportunity to serve their members. The average cost of service to the consumer was 5 cents per kilowatt-hour in 1941 and was 2.9 cents per kWh in 1975.

The bylaws in most electric cooperatives specify what shall be done with margins that remain after payment of all expenses. Some organizations return the margins in the form of rate reductions, others as cash patronage refunds. Most rural electric cooperatives have written into their bylaws a provision for "capital credits." This is known among other types of cooperatives as a "deferred patronage refund."

Rural electric cooperatives operate in most of the 3,072 counties of the United States. The smallest of these enterprises serves 150 member-owners in Iowa. The largest serves 53,000 members in Florida.

The typical rural electric cooperative serves about 6,000 members. It has an average of 3.97 consumers per mile of line. Some 91 percent of the meters are located on farms and in nonfarm residences. The remaining 9 percent are at schools, churches, and rural business firms and industries in the service area.

Power Source—The typical electric cooperative is about 36 years old. It probably buys its wholesale supply of power from a nearby power company, a public agency, or from a power supply cooperative. About 34 percent comes

from power companies, 40 percent from Federal and other public agencies, and 27 percent from power supply cooperatives (totals do not add because of rounding). At the beginning of 1977, there were 50 of these power supply cooperatives, owned in turn by distribution cooperatives.

Member Relations—Membership of the typical electric cooperative turns out once a year, usually in late summer, for an all-day meeting. At that time, the officers and the manager report to the members on progress and problems. The members vote to fill board vacancies, and the board of directors (usually nine) then elects officers from its own ranks.

The typical electric cooperative publishes a monthly newsletter that is mailed to its members, or keeps its members informed about the cooperative through the newspaper or magazine of a statewide association of electric cooperatives that is published and mailed once a month.

Besides being a member of a statewide organization, the cooperative also belongs to the National Rural Electric Cooperative Association, a trade association with offices in Washington, D.C.

Rural Telephone Service

About 247 telephone cooperatives have borrowed money from REA to extend and improve telephone service in rural areas. Rural telephone cooperatives operate under the same general cooperative principles as rural electric cooperatives. They are located in 31 States and obtain funds from REA and from the Rural Telephone Bank—an agency of the United States established in 1971 to provide supplemental financing for telephone systems. Bank loans are being made for the same purposes as loans made by REA but bear interest at a rate consistent with the Bank's cost of money. In addition, 6 of the Bank's 13-member board of directors are elected by the Bank's stockholders.

On June 30, 1976, telephone cooperatives were serving the communications needs of more than 900,000 subscribers. The National Telephone Cooperative Association, with offices in Washington, D.C., is the trade association for rural telephone cooperatives.

Cooperative Farm Insurance

Cooperatives organized to offer fire insurance protection to farmers are called mutual fire insurance companies. Estimates indicate that these companies carry more than 50 percent of all the fire insurance coverage on farm buildings in the United States.

Mutual fire insurance companies have served Americans for more than 200 years. In 1752, Benjamin Franklin helped to start what may have been the very first one in North America, a mutual insurance cooperative with the imposing title of Philadelphia Contributorship for the Insurance of Houses from Loss by Fire.

Early farmers' mutual fire insurance companies operated on an assessment basis. That is, members shared losses on property damaged by fire.

When these mutual fire insurance companies were small, assessments were made after each loss. Most mutuals today operate on an advance assessment basis, as do other types of insurance companies.

Many farmers' mutual fire insurance companies start operating in rather small areas, such as a township or a county. In recent times these companies, while continuing to serve rather restricted areas, spread the risk by reinsuring with similar companies in other areas, or with specialized mutual reinsurance companies. This has the double advantage of avoiding failure should a disaster such as a tornado hit the area served, and permitting the company to write large policies.

Farmers' mutual fire insurance companies are true cooperatives. Policyholders, who are the members, own the company and control it through a board of directors.

At one time, directors acted as representatives and actually wrote insurance applications. Today the trend is to have this done by paid employees. As in many other cooperatives, the secretary is also the manager, running the day-to-day affairs of the company.

Farmers' mutual fire insurance companies have been leaders in fire prevention work. They may make periodic inspections of insured property, and almost always check for the presence of potential fire hazards prior to issuing a policy. They publish and distribute educational material on fire prevention.

Credit Unions

A credit union is a cooperative whose services include encouraging savings or thrift, teaching the wise use of money, and providing a source of loan funds at reasonable rates. It is an organization chartered and supervised either by a State or by the Federal Government through the Bureau of Federal Credit Unions.

While there are more than 22,600 credit unions in the United States, more than 600 chartered under Federal and State statutes are located in rural areas.

Membership in a credit union is limited to persons having some common bond such as working in the same plant or belonging to the same organization. A person becomes a member by applying for membership, and paying a nominal entrance fee of 25 cents.

Credit unions in the United States began in 1909 when Massachusetts passed the first State credit union law. Most of the other States now have similar laws.

In 1934, Congress passed the Federal Credit Union Act. Its provisions are similar to many State credit union laws.

Members control a credit union through a board of directors, a supervisory committee, and a credit committee, elected annually.

No credit union officer except the treasurer, who acts as manager, draws any pay. Often the treasurer serves without pay, or at best a very nominal salary, especially when the credit union is starting.

Members' savings are called shares. Share deposits may be made in amounts as small as 25 cents and may be withdrawn at will under most circumstances.

From funds saved by members, the credit union may make loans to members. Repayments are made on a mutually agreed on schedule, with interest charged only on the unpaid balance of the loan outstanding. Loan applications are reviewed for approval by the credit committee.

Net income from lending operations is usually distributed to members as share dividends, after reserves have been set aside.

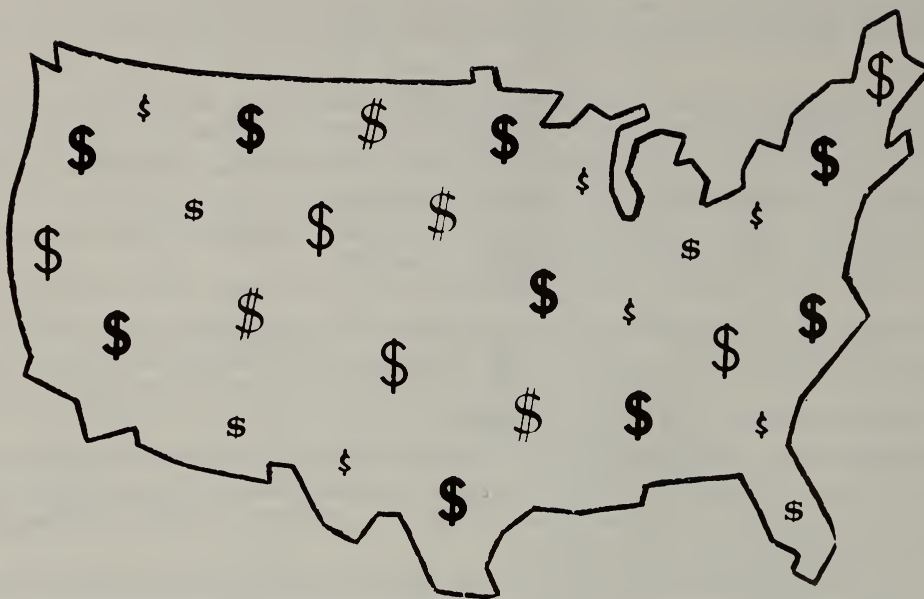
A great many credit unions serving rural areas have been sponsored by farmer cooperatives, which often provide office space on their premises. Because credit unions do not normally require outside financial support and because their existence promotes employee morale and efficiency, other cooperatives find it useful to give a helping hand.

Because of the self-help nature of credit unions they are particularly useful in programs to help low-income people. A number have been started in low-income housing projects and neighborhoods as part of a community action program providing a number of services.

New credit unions also serve handicapped persons whose income is lower than average, and interest in credit unions to serve organizations of senior citizens is growing.

Most credit unions belong to the State Credit Union League in the State in which they are situated. This is a type of trade association whose members are individual credit unions. The leagues assist individual credit unions with special problems and help new groups desiring to organize.

Serving credit unions in all States is Credit Union National Association (CUNA), a national trade association. CUNA provides educational material and various types of assistance. The association also assists with projects on an international basis.



NATIONWIDE COOPERATIVE CREDIT SERVICES

With the assistance of Congress, farmers in the United States have developed their own cooperative credit system to the point where it is possible for them to obtain much of their credit needs from this source.

From a functional standpoint, the system provides farmers four kinds of credit. Farmers get long-term loans primarily to buy land and refinance debts. They get intermediate-term loans for equipment and capital improvements. They get short-term loans for farm operating expenses. Farmer cooperatives get long-, intermediate-, and short-term loans for their development and operation.

The system is composed of three units authorized by Congress over a period of 16 years beginning in 1917. One unit is made up of 12 Federal Land Banks with some 430 local affiliated Land Bank Associations. A second unit consists of 12 Federal Intermediate Credit Banks with about 550 local affiliated Production Credit Associations. The third unit has a Central Bank for Cooperatives and 12 District Banks for Cooperatives.

Farmers and their cooperatives have borrowed $258.8 billion from the System from its inception through 1976. They borrowed nearly $36.7 billion in 1976.

Farmer Control

Farmers have a voice in the control of their credit cooperatives at the local, district, and national levels. Farmers elect the boards of directors of the Land Bank and Production Credit Associations.

Through these local boards, they elect four of the seven Farm Credit board members in each District. In addition, cooperatives borrowing from the Banks for Cooperatives elect two directors. The District board makes policy and hires management for the District banks.

The local boards also make nominations for the District representative on the Federal Farm Credit Board in Washington. The President of the United States makes his appointment from the three nominees in each District.

The function of the Federal Farm Credit Board is to employ and direct the Governor of the Farm Credit Administration and to determine broad general policy.

The Farm Credit Administration, an independent Government agency, supervises the cooperative Farm Credit System. This supervision includes periodic examinations of each of the System's banks and associations. All the expenses of the Farm Credit Administration are assessed against the banks and associations it supervises.

Although the Federal Government helped start the System, ownership now is in the hands of farmers. The principle of farmers gradually becoming the owners of the System was contained in the original Farm Loan Act passed in 1916. The last of the Federal investment in the System was repaid in 1968. Under the Farm Credit Act of 1971, new areas for increased borrower participation and control of the System were opened. The act also authorized loans by Federal Land Banks and Production Credit Associations for nonfarm rural housing and certain farm-related businesses such as custom harvesters and crop sprayers.

Federal Land Banks

The 12 Federal Land Banks were initiated by act of Congress in 1917. These banks and associations supply the Nation's farmers with about 31 percent of their long-term mortgage credit.

Each Federal Land Bank Association is a separately chartered organization of member-borrowers, operating under its own bylaws. Each has its own board of directors elected by and from its members. The board of directors selects its own officers and employees who are responsible for the day-to-day operations of the association.

A person becomes a member when he successfully qualifies for a land bank loan. A person is eligible to apply for a loan if he is engaged in, or is shortly to become engaged in, farming operations, or derives the principal part of his income from farming. Part-time farmers are also eligible borrowers, as are corporations primarily engaged in farming. Under the 1971 act, nonfarm rural residents and certain farm related business also became eligible borrowers.

Each member of a Federal Land Bank Association purchases stock in the association. The association in turn purchases stock in the Federal Land Bank. This enables farmer-members to become owners of the Federal Land Bank in each Farm Credit District.

The member's stock in the association is his personal property. He pledges it with the association as additional collateral for his loan.

The associations have accumulated substantial reserves that protect the members' investment.

When a Federal Land Bank loan is paid in full, the stock in the bank is retired in cash at par—$5 a share. The association then retires the member's stock in the same manner. In this way, the ownership of the System is confined to its users.

Funds used in the lending operations of the Federal Land Banks are obtained chiefly from the sale of consolidated Federal farm loan bonds to the investing public through the office of the Fiscal Agent in New York City.

These bonds are in no way guaranteed by the Federal Government. They are secured by the first mortgages held by the banks and are considered a prime investment in the money markets. The Federal Land Bank Associations and the Federal Land Banks bridge the gap between investors and farmers needing long-term credit.

Federal Intermediate Credit Banks

Congress organized 12 Federal Intermediate Credit Banks in 1923. These banks did not then, nor do they now, loan directly to farmers. Rather, they are banks of discount—credit wholesalers.

In 1933, the need for making more credit readily available to farmers was acknowledged when Congress paved the way for setting up local Production Credit Associations throughout the country.

Some 550 of these associations, with the help of the Intermediate Credit Banks, provide about 28 percent of the short-term operating and intermediate-term credit for capital improvements used by farmers today. All of the associations are now entirely farmer-owned.

Control of the association is in the hands of the farmers and ranchers who use it. Each member has one vote. To keep control in the hands of the users, stock owned by members who do not borrow from their association for 2 successive years is converted to nonvoting investment stock.

Farmers run their association by electing a board of directors composed of farmer-members who are eligible to borrow from the association. Thus, all directors are engaged in agriculture. The board of directors selects the manager of the association.

While a Federal Land Bank Association acts only as an agent of the District Federal Land Bank, a Production Credit Association (PCA) exercises full responsibility for making, servicing, and collecting loans, and also bears the risk of loss on them.

The manager, under the general direction of his board, is in charge of the day-to-day operations of the association and its staff, and his duties cover a wide range of association activities.

A farmer becomes a member of the local PCA when he takes out a loan. In becoming a member he buys Class B (voting) stock equal to about 5 percent of the loan. He can borrow any amount that the association's loan committee feels he can use constructively and repay.

When members repay their loans, they can sell their stock to other members who need to buy stock. However, members usually retain their Class B voting stock so that they can use it when they need a new loan. If, after 2 years, a member has not borrowed from the association, his stock is converted to Class A, which is nonvoting stock.

Loan funds come from private investors, raised through the sale of securities by the 12 Federal Intermediate Credit Banks with which the PCAs are affiliated.

The responsibility of the 13 Intermediate Credit Banks goes beyond the point of merely providing loanable funds to the PCAs. These banks supervise and assist the local associations in their respective districts in other ways.

The supervisory functions are designed to help associations maintain a sound and constructive credit service and also to protect the members' investments in their credit system.

Banks for Cooperatives

Banks for Cooperatives, organized under the Farm Credit Act of 1933, provide a permanent, specialized credit and business service at cost on a constructive basis for farmer cooperatives.

There are 12 regional Banks for Cooperatives serving farmer cooperatives in their respective Farm Credit Districts. A Central Bank for Cooperatives is in Denver, Colo. It participates with the district banks in financing larger loans.

A farmer cooperative becomes a member of a Bank for Cooperatives by borrowing from it. When it does, the association invests in the capital stock of the bank on a continuing basis in proportion to the interest it pays on its loans.

To be eligible to borrow from a Bank for Cooperatives, a cooperative must be an association in which farmers act together in performing one or more of the following:

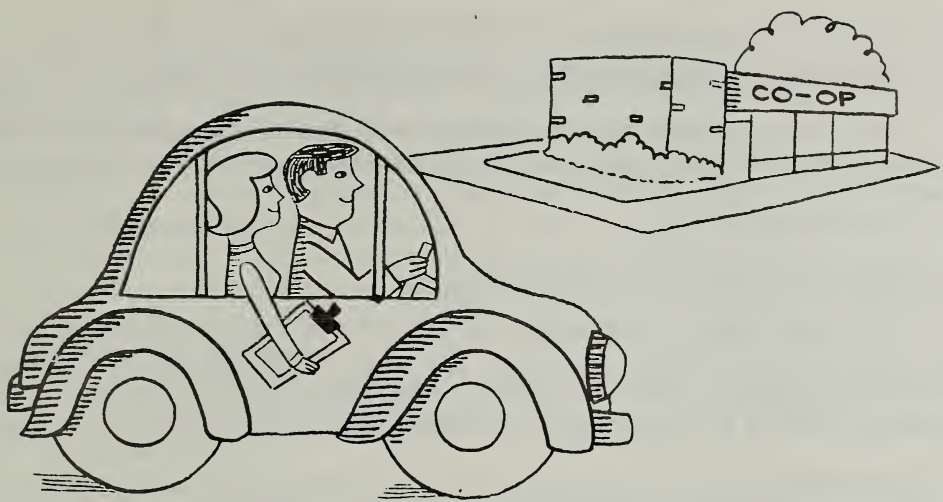
1. Processing, preparing for market, handling, or marketing farm products.
2. Purchasing, testing, grading, processing, distributing, or furnishing farm supplies.
3. Furnishing farm business services.

It is also necessary that an association be operated for the mutual benefit of its members and that it does at least as much business with members as with nonmembers.

If voting is on other than a one-member, one-vote basis, dividends on a cooperative's stock or membership capital must be limited to 10 percent a year. Further, 80 percent of the voting control of a cooperative must be held either by farmer-members or by associations owned and controlled by farmers.

The Banks for Cooperatives provide more than half of the credit used by farmer cooperatives. The associations use Bank for Cooperatives loans for purposes that will keep farmer cooperatives modern, efficient, and able to provide needed services for their members. A loan might be to buy a plant site, purchase new equipment, build a new building, or store commodities, or it might be for operating capital and other productive purposes.

Along with making loans, the Banks for Cooperatives offer counseling services to cooperatives. The Banks have experienced personnel available for this added assistance.



CANVASSING COOPERATIVES IN YOUR AREA

An easy way to learn more about cooperative agribusiness firms as they are today is to visit and inquire about those serving your own area. Some cooperatives are headquartered in large cities. Most have plants or offices in smaller towns or rural communities.

See how many cooperatives you can name serving an area that lies within a radius of 10 miles around you. What would you like to learn about these cooperatives and who would you ask about them?

Some questions can be asked of members. If there is a member of the cooperative board of directors living in your vicinity, he would be ideal as a source of information. You might talk to a cooperative fieldman when he is visiting your area, an office manager of a local cooperative, or a public relations director of a regional organization.

You might be invited to attend a membership meeting held in your area. You can learn many facts from reading several issues of a cooperative's magazine, newsletter, or newspaper.

In surveying a cooperative, what are the important things to learn about it? Here are a few:

1. What services does it perform?

2. What other firms or companies provide similar services? What was the need that led to organization of the cooperative?

3. What types of patrons are its members? Do they regularly patronize it? Do they represent a substantial percent of residents in the area who are eligible for membership?

4. What are the requirements for membership?

5. Is there a membership agreement—a marketing agreement if it is a marketing association?

6. How is such an agreement enforced? Successfully?

7. Is the cooperative centralized or federated in its membership structure?

8. How are patronage refunds distributed? How is the patron informed of his contributions to the cooperative's capital structure? Of his revolving fund credits?

9. Are dividends paid on revolving funds? On capital stock? What rate?

10. How long is the revolving fund cycle?

11. If it provides a marketing service, how do total returns to patrons compare with those paid by competing firms? If it provides a purchasing service, how do operating costs compare with those of competing firms? If it provides other services, how do costs or charges compare with those of competing firms?

12. Is the cooperative expanding in volume of business or in services performed?

13. Is membership growing or diminishing? Why?

14. Are directors respected in their communities as reliable, responsible, and public-spirited men?

15. Does the cooperative appear to be progressive or is it inclined to "follow the leader"?

16. Are members loyal in their attitude toward the cooperative? Do they speak well of it?

17. What services does the cooperative provide?

18. If it is a marketing association, does it sell primarily to wholesalers, retailers, or both? Does it export products to other countries?

19. Does the cooperative own or operate such assets as refineries, oil wells, fertilizer plants, feed mills, dried milk plants, canneries, slaughterhouses, poultry dressing plants, irrigation canals, research laboratories, or computers?

20. Does the cooperative allow members to buy supplies on credit?

You may be unable to find answers to all these questions at one time or from one person. All the answers you do get will, however, contribute to your knowledge of the association and help you evaluate its contribution to your community.

The things that you learn about one cooperative may not be true of another. Cooperatives throughout the Nation differ widely in services performed, number and resident area of members, financial management and operations, size of staff, number of directors, and concentration of membership.

They all have three things in common, however:

—Democratic control,
—Limited dividends on invested capital, and
—Operation on a cost-of-doing business basis.

A Cooperative for Your Group

If you are a member of Future Farmers of America, 4-H Club, or other group, you may find that membership in a cooperative serving your area would be helpful to your group or to you in your supervised farming project. You would then have a practical purpose in your inquiry.

It would be necessary to determine whether the cooperative considers you, or your group as a whole, eligible for membership. What type of cooperative service could your group use?

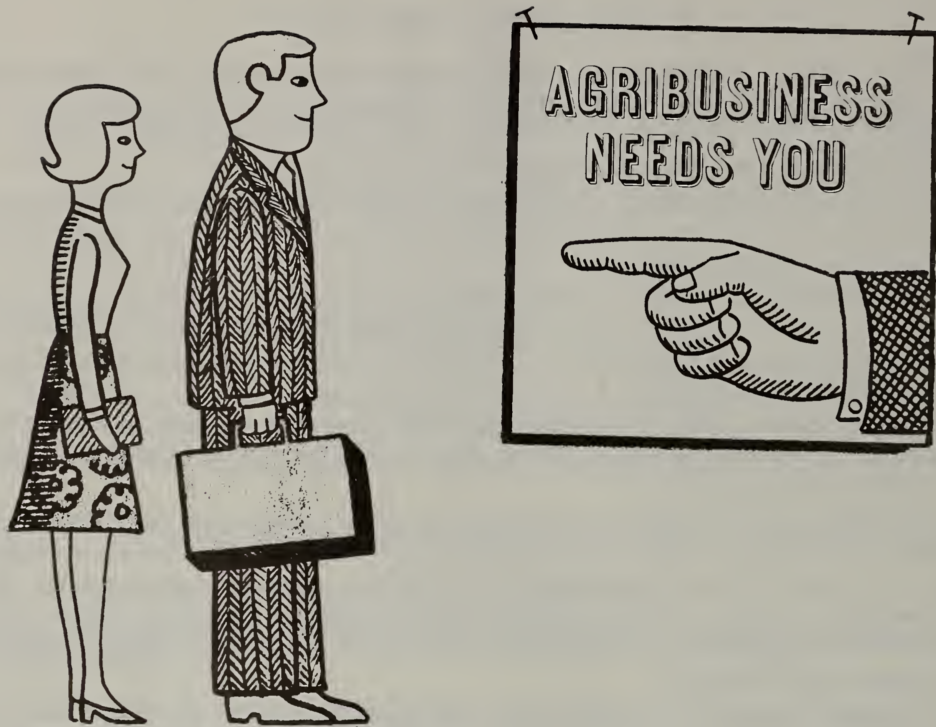
The cooperative might market eggs, poultry, hay or other crops or livestock produced on a chapter farm. It might purchase feed, seed, fertilizer, spray, petroleum products, or containers. It might provide some needed related service such as custom pest control.

If your group joins a cooperative, every member should be aware of the obligation of members to provide capital to the cooperative business in proportion to their patronage of it.

Membership carries advantages; it also carries responsibilities. Group members should keep informed regarding the cooperative's policies and operations and should attend membership meetings, or at least your group should be represented at them. Your members should vote for directors and in all elections of the organization. Cooperative members should be active, interested, supporting, and informed.

In some chapters or clubs, each incoming member pays a small membership fee and may purchase a revolving fund credit from a graduating member. Some chapters with a farm belong to several cooperatives.

For their members, cooperative activity is part of the learning process. It unites group members in a common effort and business interest; it may yield savings to group members.



CAREERS IN AGRIBUSINESS

Your interest in agribusiness may be academic or it may be as a prospective part owner of a cooperative. You may even find you are a prospective employee.

It is obvious from the range of activities in agribusiness that it spells great opportunities for young people with agricultural experience, interest, training, and a bent toward a career in business and management.

Practical farming, also, because of its complexity, requires far more knowledge, skills, managerial ability, and capital than it used to.

One agribusiness leader predicted "... a generation hence the most severe shortages in America may be in men and women trained to produce and handle food and fiber ..."

He added, "If population estimates are correct and our population increases to 361 million within the next 35 years, agribusiness will need to double its production and processing capacity merely to maintain our present nutritional level."

Where will the people needed to manage agribusiness growth and expansion come from?

Educators report increases in enrollment and number of degrees awarded in colleges of agriculture at all levels: 2-year certificates, B.S., M.S., and Ph.D. Following several years' decline, agricultural college enrollment began

increasing in the mid-sixties and continues. This increase would be due in part to increased interest in agriculture—attributed especially to nonfarm background and female students, the importance of food production, the prudent utilization of material resources, and the agricultural economy.

Agribusiness offers job opportunities for an estimated 13,000 to 15,000 agricultural college graduates each year. Continued strength for agriculture graduates is shown even though many graduates in other areas were having great difficulty in obtaining positions. Most universities predict additional increases in agricultural graduates' starting salaries. Few, if any, businesses offer career opportunities as challenging as agribusiness.

Many agribusiness firms, particularly farmer cooperatives, offer work opportunities for vocationally trained young people at the technician and skilled level where farm background is valuable. Many area schools, junior and community colleges, and institutes offer programs leading to agribusiness careers.

Choice of Careers

In addition to farming and ranching, job opportunities in agribusiness include careers in research, conservation, industry, business, education, communications, and a long list of services. Job counselors say there are more than 500 distinct occupations in 8 major fields of agriculture.

There are jobs in agribusiness management; office training; accounting and computer programming; agrichemicals and fertilizers; and sales, marketing, and services. Jobs include: Technicians (animal sciences); agriculture sales technicians; farm equipment dealers and mechanics; farm managers; nursery workers; landscape technologists; gardeners; technical agriculturists; agricultural credit representatives; foresters and conservationists; animal caretakers (high-level technicians); fishermen and oystermen; local cooperative management trainees; dairy quality control technicians; grain technicians; elevator and feed operators; laboratory aides or technician-veterinarians; seed technologists; canning industry-factory mechanics; and many more.

And because agribusiness covers such a wide range of activities, there are opportunities in it for young people, regardless of whether they have lived on farms. An increasing number of these opportunities are in the Nation's farmer-owned cooperatives.

Education Requirements

In the great variety of occupations in agribusiness, the necessary qualifications are as varied as the positions available. There are places for high school graduates, for business school graduates, for individuals trained as specialists, and for college or university graduates.

As in all other types of business, the responsibilities assigned, the authority given, and the salary paid are roughly commensurate with the extent of the employee's education. While many agribusiness employees do not possess college degrees, college graduates are preferred for administrative posts. Directors of research or research analysts usually hold a Ph.D. degree.

People with business college training are needed on accounting staffs, as stenographers and secretaries, and as office managers. College graduates with some knowledge of the commodities being handled by a cooperative are generally preferred as fieldmen. In addition to formal training, experience is desirable for the several department heads in a cooperative in their respective fields such as sales, production, transportation, and procurement of supplies.

College training in journalism is an advantage to an editor or publications director.

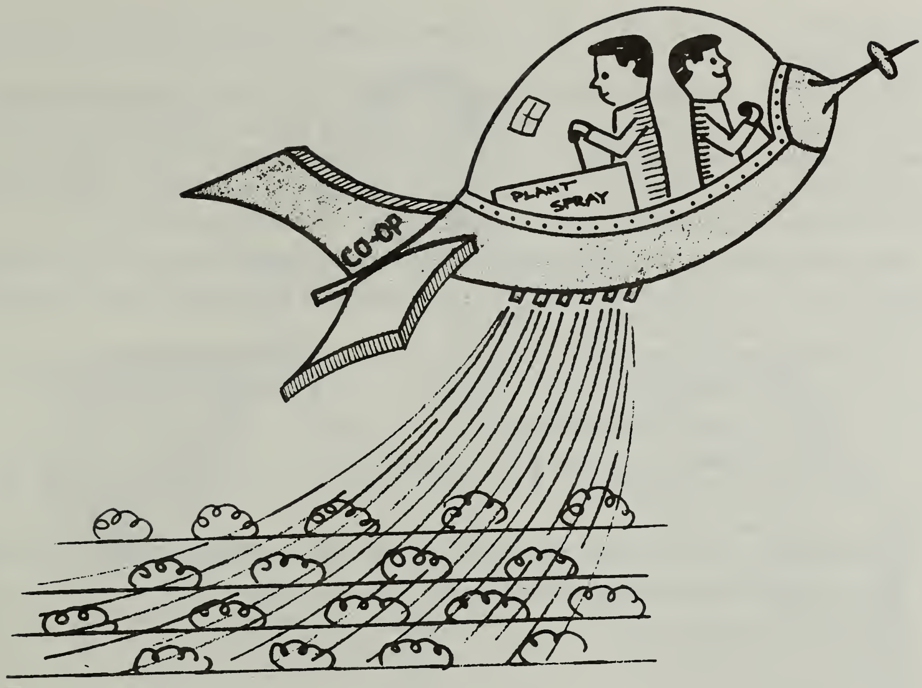
Many agribusiness firms employ a credit manager. He should have a thorough knowledge of members' monetary needs and earnings and of sound financial procedures.

A few firms maintain a research department. This department may be concerned with economic research, product research, consumer preferences and acceptance, or operating techniques and problems.

Usually the manager of a cooperative or other agribusiness firm handles much of his public relations through published material, contacts, speeches, articles, and entertainment of guests and visitors. Some larger firms employ a public relations director, and many cooperatives have an employee who specializes in member relations.

Next to a good education, the most important qualification for an agribusiness employee is perhaps the realization that the business firm will prosper only if it serves patrons efficiently and adequately.

Sincere interest in the field of business or service in which the firm is engaged, a liking for people and understanding of differences in attitudes and problems, willingness to work diligently, suitable educational preparation, and genuine friendliness of manner are probably the most sought after characteristics in prospective co-op and other agribusiness employees.



COOPERATIVES IN THE YEARS AHEAD

Cooperatives are already in the forefront in bringing technological changes to the business of agriculture. Indications are that cooperatives will become more and more important in producing agricultural products, and in getting the products to consumers.

In the years ahead, the need for agricultural producers to tap the mainstream of all sorts of skills and scientific advances will be even more urgent than in the past. If the producer goes it alone, he needs to be a financial and management analyst for his own enterprise; a soils, crop, and livestock scientist; a cultural and harvesting expert; a marketer; a purchasing agent; an engineer and machinery expert; and have some knowledge of many other technical professions.

One man alone finds it difficult to keep up with the new knowledge coming on the scene so swiftly. Just as other businessmen, he increasingly has to depend on hiring this professional competence and capability—sharing the part-time services of experts in many different fields.

Few farmers are able to afford their individual set of experts, but they can cooperatively.

Many cooperatives have a service where growers use direct dialing to phone the headquarters office hundreds of miles away, with charges reversed, to ask specific questions on their farming or co-op operations. The question is

tape recorded, moved swiftly to the proper expert, and the answer mailed back within 24 hours.

The dozens of research farms growers now own and operate through their cooperatives will be even more important in the future. These farms can take the basic research from the State and U.S. Departments of Agriculture and others, test and adapt under actual farming conditions, and then demonstrate to growers and co-op personnel those results that can aid the grower.

Requirements in processing and marketing farm products are constantly changing, and the cooperative is one way farmers can meet these requirements while retaining control of their products.

Farmers need cooperatives more than ever for financial survival. The cooperative gives them a usable business and scientific intelligence to draw from as well as an apparatus for buying and selling.

One farmer alone could indeed be a weak voice lost in tomorrow's vast marketplace. But the voices of many—speaking in unison—can have an impact.

In all aspects of agribusiness, the farmer tomorrow and beyond faces many exciting challenges and questions.

Will the desalted waters of the oceans and the seas flow inland to water the land? And will producers have some control over use and cost of this water?

Will hydroponics become a threat to farming as we know it today or a blessing wisely used to better feed the people?

And as these or other things come to pass, will the farmer be priced out and moved out of his own business?

Or will he find ways to survive—by adapting his cooperative to his needs or by other forms of endeavor?

COOPERATIVES IN REVIEW

Now that you have finished reading this circular you should have a better understanding of what cooperatives are, and of the part they play in the American private enterprise system.

The following questions cover the main points you should know about cooperatives. If you can answer them, you have a very good understanding of the role of cooperatives in agribusiness.

1. What are the three ways of doing business in the United States? Discuss.

2. Which of the three ways is the one usually used by cooperatives? Why?

3. Describe and discuss the three basic principles of all cooperatives.

4. A cooperative is usually incorporated. In what respect is a cooperative like investor-oriented corporations? In what respects different?

5. What are the advantages of incorporating a business firm?

6. Many people think that cooperatives are just for farmers. But we have learned that cooperatives are for city people, also. Give examples of cooperatives that serve city people.

7. Is there any difference in the basic characteristics of cooperatives that serve farmers and those that serve city people? Discuss.

8. What are the two basic legal documents of a corporation? What do they do?

9. How is a cooperative managed and controlled? Describe the four groups of people involved in the operation of a cooperative. What are their respective roles?

10. How does a cooperative get the money it needs?

11. What is the Farm Credit System? Describe it.

12. What is the Rural Electrification Administration?

13. List and describe four kinds of services provided by cooperatives.

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For copies, write Farmer Cooperative Information, U.S. Department of Agriculture, Washington, D. C. 20250

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FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.